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December 16, 2008

AGENDA ITEM 7a

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** 2008 Second Quarter Self-Funded Health Plans Financial Report
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Information Only
- IV. BACKGROUND:**

This report is to provide the CalPERS Board of Administration (Board) with an update on the financial status for the six CalPERS self-funded Preferred Provider Organization (PPOs) health plans for the calendar quarter ending June 30, 2008. This is the second quarter for the new plans, PERS Select Basic and Supplemental. The plans are included in this report, but with such a small amount of data the results are not very meaningful. The results will be monitored closely over the remainder of the year.

The overall financial position of the self-funded health plans remains stable. The medical and pharmacy claims 12 month cost trends have increased slightly for the first half of 2008 compared to the 2007 year. The ongoing positive financial results for the program assets provide assurance that the rates approved by the Board for the 2008 plan year were sufficient to fund benefits and to maintain adequate reserves.

V. ANALYSIS:

At the end of the first half of 2008, the overall combined loss ratio for the self-funded health plans was 96 percent (100 percent is break-even). This resulted in an overall underwriting gain of \$34 million for all six self-funded health plans. The first half produced better than expected results based upon the continuing lower-than-expected overall trend in the medical and pharmacy claims cost.

Assets above the actuarial reserve requirements for the first half of 2008 were \$418 million. This increase was due to several factors, including better-than-expected claims cost trends, continuing strong rebates relating to the pharmacy contract, and investment returns.

The following attachments provide detailed financial and trend information:

Attachment 1

This attachment displays summary results for the first half of 2007 and 2008 as well as the prior two years. The PERSCare Supplement to Medicare, PERS Choice Basic, and PERS Select Basic plans are showing underwriting gains while the PERSCare Basic, PERS Choice Supplement to Medicare, and PERS Select Supplement to Medicare plans are showing a small loss.

Attachment 2

This attachment presents the per-member-per-month (PMPM) medical and pharmacy claims costs for five quarters beginning with the second quarter of 2007.

The year-to-year (comparing 2nd quarter 2007 to 2nd quarter 2008) medical PMPM costs show expected increases for the four self-funded health plans with PERS Choice Supplement to Medicare plan with a low of 2.6 percent and PERSCare Basic plan at a high of 13.2 percent.

The year-to-year (comparing 2nd quarter 2007 to 2nd quarter 2008) pharmacy claims show expected increases for the four self-funded health plans with PERS Choice Basic plan with a low of 5.1 percent and PERSCare Basic plan at a high of 7.5 percent. Trends reflect claims cost only and do not include rebates.

Attachment 3

This attachment presents asset values, reserves and asset changes for the self-funded health plans.

As of June 30, 2008, total program assets (line 21) exceeded the actuarial reserve (line 23) by over \$418 million. The excess of assets over reserves increased by \$85 million for the first half, indicating that surplus reserves are being generated due to the lower-than-expected claims cost trends, continuing strong pharmacy rebates and investment returns. Overall, the four established self-funded health plans' asset levels continue to be positive. The two new plans are currently showing a small deficit.

Attachment 4

This attachment highlights the relative strength of the assets compared to the actuarial reserve. The overall levels of the assets in the self-funded health plans remain positive and indicate that assets and reserves are adequate to cover program liabilities.

Attachment 5

This attachment shows the overall enrollment trends for the four self-funded health plans. Enrollment in PERSCare Basic plan continues to decline as enrollment has shifted to PERS Choice and PERS Select.

VI. STRATEGIC PLAN:

This directly relates to Strategic Goal #10: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

VII. RESULTS/COSTS:

There is no cost associated with this item.

Ellen Badley, Chief
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Attachments